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National Association of Purchasing Management

Report On Business

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New Orders Surge

Production Expands

Employment Improves

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

January Report

The economy began the year with a show of strength, say the nation's purchasing managers in their latest **Report on Business**. New orders surged higher in January to a level not seen since June 1984. Production also expanded, recovering from the normal seasonal decline in December. Inventory levels rose slightly in January, with purchasing managers reporting increased purchases. The rise in employment was significant compared to the levels of the past several months. For thirteen consecutive months, more members have reported lower, rather than higher, prices, but in January the same percentage of purchasers reported both lower and higher prices.

While January is typically a good month, the persistent strength of the economy is impressive. The substantial increase in new orders suggests a healthy first quarter, said Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers Composite Index** rose to 52.4% in January, mirroring the economic improvement. This number reflects the update by the Department of Commerce of the seasonal adjustment factors used to calculate the Purchasing Manager's Composite Index. January's index of 52.4% is an increase from the 51.2% reported in December and 52.1% in November, which were also revised for the updated seasonal adjustment factors. A reading below 50% generally indicates that the economy is in a declining phase; above 50%, that the economy is generally expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment rebounded in January, after hitting a seasonal low point in December when many companies shut down over the holidays. Although still in a decline, the 76% reporting the same or higher employment in January is the highest percentage since July 1985 (80%).

Employment: %	Higher	Same	Lower	Net Differ.
January	12	64	24	−12
December	5	67	28	−23
November	7	68	25	−18

Buying Policy

Lead times for production materials expanded, reflecting the increased economic activity in January. Members reporting lead times of 60 days or less dropped to 85% from 91% in December. The lead time for MRO supplies also widened, as only 85% of members reported lead times of 30 days or less, down from 91% in December. Purchasers indicating lead times of 6 months and longer for the important capital expenditures category expanded to 55% from 51% in December and 48% in both October and November. This is the highest percentage since July 1985 (also 55%).

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
January	21	40	24	10	5
December	20	44	27	6	3
November	17	48	22	9	4
MRO Supplies %					
January	40	45	10	3	2
December	45	46	4	3	2
November	46	44	8	1	1
Capital Expenditures %					
January	17	3	7	18	55
December	18	2	6	23	51
November	16	4	5	27	48

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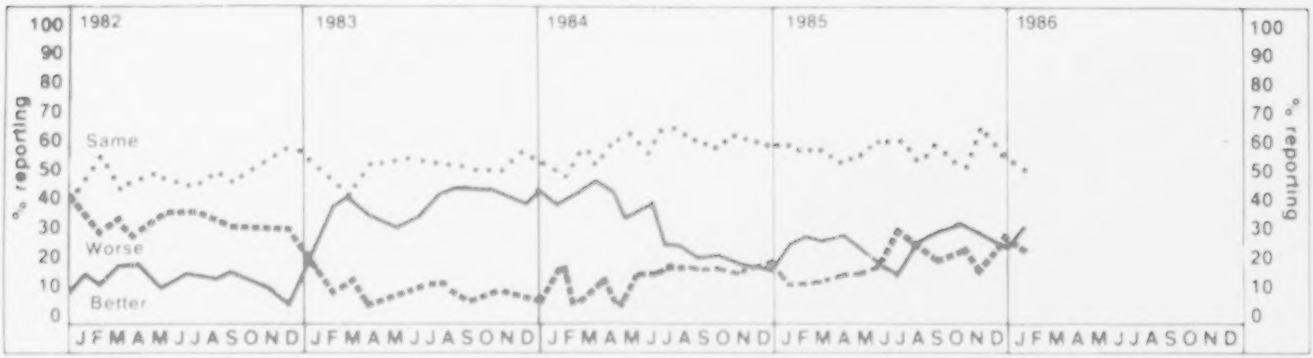
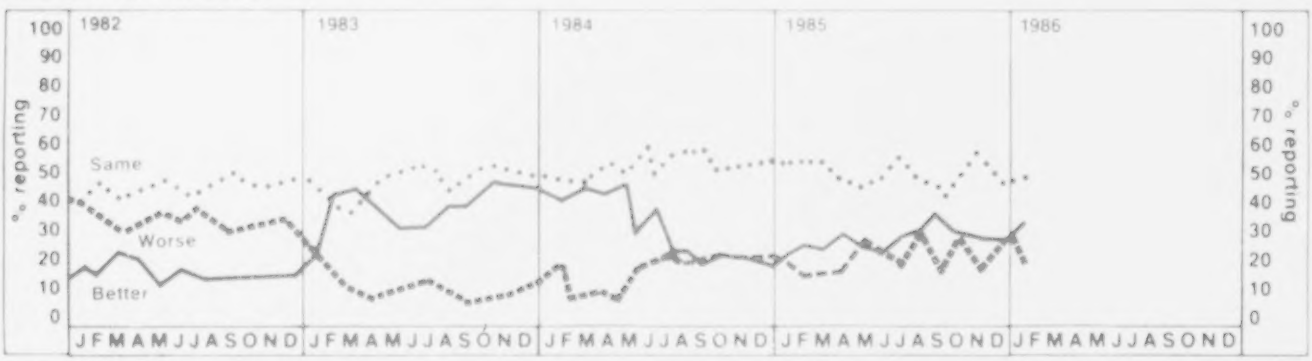
Production



After a normal seasonal slowdown in December, production expanded briskly in January. The 31% of members who indicated that their production was better in January is the largest percentage since June 1984 (35%).

Production %	Better	Same	Worse	Net
January	31	49	20	+11
December	21	55	24	− 3
November	23	62	15	+ 8

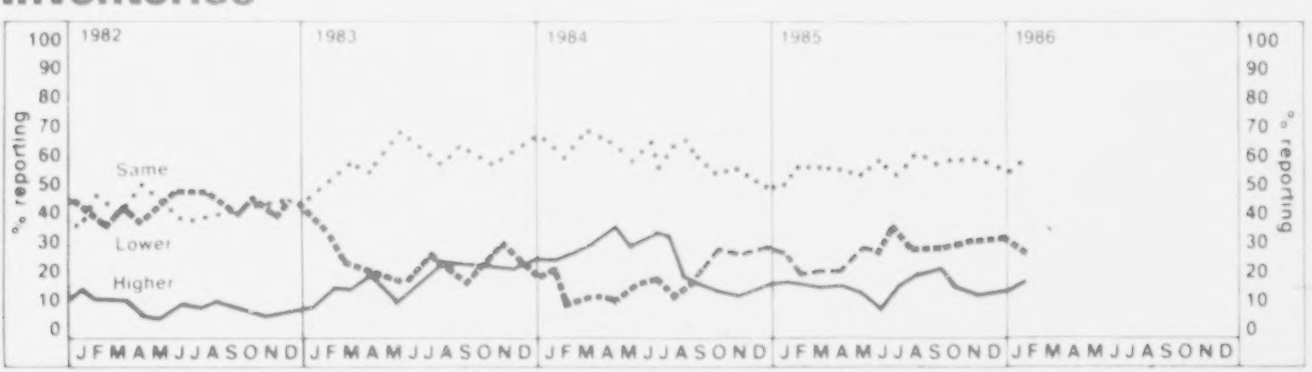
New Orders



New orders increased significantly in January after a seasonal decline in December. The 34% reporting better new orders matched the September figure and is the highest since June 1984. The rise is impressive, even if adjustments are made for a normally strong January.

New Orders %	Better	Same	Worse	Net
January	34	48	18	+16
December	26	46	28	− 2
November	26	58	16	+10

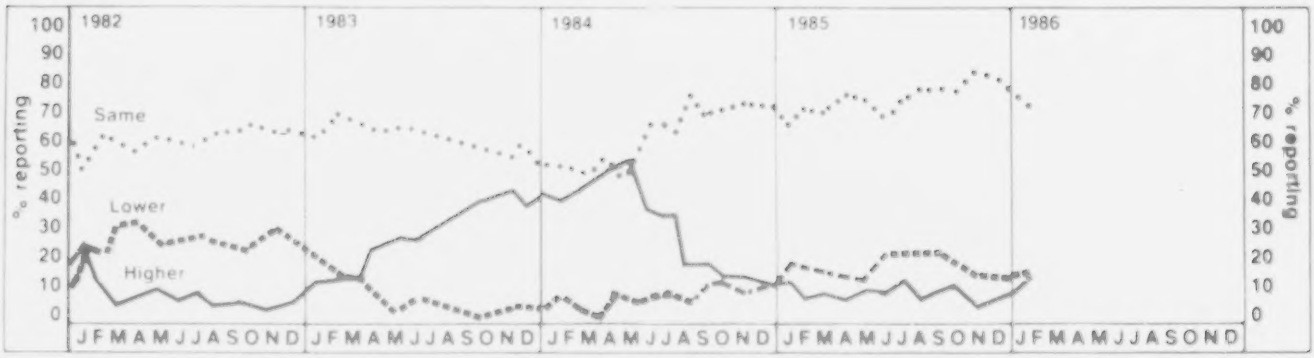
Inventories



The overall rate of decline in inventory levels slowed in January. The 25% of purchasers reporting lower inventory is only 10 points greater than the 15% reporting higher inventories; this is a 7 point net reduction from November and December.

Inventories %	Higher	Same	Lower	Net
January	15	60	25	−10
December	13	57	30	−17
November	12	59	29	−17

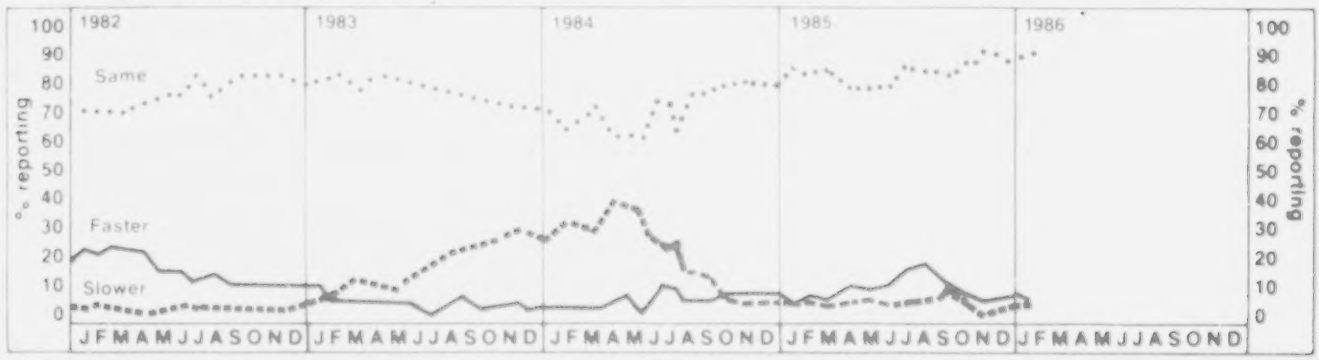
Prices



For thirteen consecutive months, more prices were reported lower, rather than higher. This pattern was broken in January. The number of purchasing managers reporting higher and lower prices is in complete balance. While there does not seem to be any reason for alarm over inflation, this is a trend that should be watched carefully over the next few months.

Prices %	Higher	Same	Lower	Net
January	14	72	14	0
December	8	80	12	− 4
November	2	85	13	−11

Vendor Deliveries



The number of purchasers reporting that their vendors' deliveries were slower in January is the same as those reporting faster deliveries (5%). Overall, the performance level was somewhat slower than that of the previous three months.

Vendor Deliveries %	Faster	Same	Slower	Net
January	5	90	5	0
December	8	87	5	+ 3
November	6	92	2	+ 4

Specific Commodity Changes

Once again, no shortages were reported in January, marking the one-year anniversary of this situation. After rising in price in November and December (following a string of twelve consecutive months in which prices declined), fuel oil prices were again reported lower in January. Another fuel, coal, was also reported lower in price. Gasoline prices were also reported lower, as they were in December. After six consecutive months of reported price decreases, aluminum prices apparently bottomed in December and were reported up in price in January. Corrugated shipping containers were reported lower in price for the twelfth consecutive month. Caustic soda, used to produce the paper from which corrugated containers are made, was reported lower in price for the sixth consecutive month. Electricity was the only energy product reported higher in price.

UP in Price: Aluminum, electricity, and ethylene-based chemicals.

DOWN in Price: Coal, fuel oil, gasoline, corrugated shipping cartons, caustic soda (used heavily in petroleum refining and paper making).

In SHORT Supply: None.

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analyses by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available March 3, 1986.

Commodity Reports

Paper Products

Prepared by the N.A.P.M. Paper Committee, chairman Glenn Farber, C.P.M., Vinod Graphics Corporation, Santee, CA.

Recent projections by the American Paper Institute forecast that total paper and paperboard production in 1985 should reach an 8 million tons, which is 2.4% less than the 1984 total production figure.

There are some signs of an increased backlog of unfilled orders for a few grades, as well as an extention of lead times. This is true primarily for uncoated free sheet grades, which have shown a 4.6% increase in production from the first ten months of 1984 through October 1985.

Profits of all the major paper companies have declined drastically from their 1984 highs. This reflects the prevailing major discounts used to meet both foreign and domestic competition. This profit decline will likely have long-range consequences on future modernization and expansion programs at most mills.

Newsprint

This commodity is still in plentiful supply. Domestic shipments were down for the first three quarters of 1985 from their comparable 1984 levels. No shortages are anticipated; prices remain steady but at reduced levels. Capacity still exceeds consumption.

Uncoated Groundwood

The Roto news market has softened since the last report; supplies now are fairly available. Domestic shipments of uncoated groundwood declined over 7% during the first three quarters of 1985, partially reflecting increased imports of these grades. Consumer inventories continue to decline, as does the use of this grade in magazines, commercial printing, and forms.

Coated Papers

These are very readily available; excess supplies of coated publication grades exist. No shortages are anticipated in the near future, and consumption by commercial printers is declining. Additional coated paper capacity is scheduled for 1986-87. Four-week deliveries (or less) and stable prices should continue.

Uncoated Free Sheet

This grade continues to be the growth leader for most mills producing this product. Increases in reprographics, forms, and offset grade shipments continue to encourage added mill capacity, with approximately 1,000,000 tons of added annual capacity projected by 1989. A few mills currently have strong backlogs. Some of this strength is credited to import declines, some inventory building perhaps is due to anticipated price increases during the first quarter of 1986. Deliveries are good; no shortages are anticipated. Heavy discounting is still prevalent in most grades.

Bleached Bristols

There is adequate availability now and for the near future. No added mill capacity is planned; deliveries remain three to four weeks or less. Prices are expected to remain steady for at least six months. Inventories at many converters are decreasing.

Paperboard

Paperboard production is down year-to-date from 1984 levels. Inventories at converters are continuing to decrease. Current availability is excellent and is expected to remain plentiful for the near term. Additional SBS capacity will be added shortly, with deliveries of three weeks or less. User inventories continue to decline. Prices remain steady at discounted levels.

Pulp

The availability of pulp and pulp substitutes is still excessive, with heavy discounting still prevalent. This condition is likely to continue for some time and we keep most paper and paperboard prices at depressed levels. However, production has declined and inventories are down about 2% from the start of 1985, thus supply and demand are getting more in balance.

Notice from the Chairman

My thanks to the many responses received to my plea for added members who is appointed in the October, *Report on Business*. Thanks to your support, we now have fourteen members on the Paper Committee.

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee, chairman Carl D. Urkiel, C.P.M., S.C. Johnson and Son, Inc., Racine, WI.

The packaging and containers market is characterized by adequate supply and stable prices. The exceptions are glass, where there is some tightness of supply, and corrugated and folding cartons, where supply is more than adequate and prices are very weak. However, at the time of this writing, attempts are being made to increase corrugated and resin prices.

Metal Cans

Supply is adequate to surplus; prices have been stable. The can companies have announced price increases for the first quarter of 1986, but some members express doubt as to whether these increases will stick.

Fibre Cans

A continuing migration from fibre to plastic cans is creating a surplus of manufacturing capacity. This over-capacity, plus the importation of fibre can raw materials, are holding prices stable.

Glass

Continued plant closings are causing some tightness of supply, particularly on the East Coast. Prices are stable, but there are some indications of an attempt to increase prices during the first half of 1986.

Molded Plastics

There is plenty of capacity in molded plastics; prices have been stable to weak. However, some resin increases stuck in the fourth quarter and further increases have been announced for the first quarter of 1986.

Films

Film supply is adequate to surplus and prices are weak. However, some concern is being expressed about possible price increases due to increased resin prices.

Laminated Stock

This is a fairly quiet market, with adequate supplies and stable prices. However, one member notes some tightness of supply in certain laminations.

Metal Drums

Not much news exists here — there are adequate to surplus supplies and stable to weak prices.

Fibre Drums

Continental Can has sold their fibre drum division to Sonoco Corporation, but this has had no impact on the market. Plenty of capacity is available and prices are stable. Some increasing attention is being given to fibre drums as an alternative to steel drums and corrugated.

Folding Cartons

This has been a buyers market for all of 1985, and this situation is expected to continue into 1986. Some renewed interest is being shown in paperboard for liquid packaging.

Corrugated

Surplus capacity is reported at the mills and at the converters. Prices have been falling so far and for so long that no one is certain where to find the bottom. Attempts to increase prices have been unsuccessful, although at least one major company has announced an increase. Given the surplus capacity, there certainly is doubt whether any price increases will take hold in the near future.

Bags

This is another weak market — one of surplus capacity and stable-to-decreasing prices. Several bag companies and or divisions have been bought and sold in 1985.